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Q-34906

FORM 10-Q



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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1992

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File No. _____

FIRST CENTENNIAL CORPORATION

(Exact name of registrant as specified in its charter)

COLORADO

(State of other jurisdiction of
incorporation or organization)

84-0817817

(I.R.S. Employer Identification No.)

PROCESSED BY

3500 JFK Parkway, Suite 301
Fort Collins, Colorado 80525

(Address of principal executive offices)

(Zip Code)

(303) 223-5030

(Registrant's telephone number including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the 90 days.

Yes X No _____

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock, as of the latest practicable date:

Class A Common Stock, \$1.00 par value

Title of Class

2,806,109

Number of Shares Outstanding As of

May 15, 1992

Class B Common Stock, \$1.00 par value

Title of Class

800

Number of Shares Outstanding As of

May 15, 1992

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PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FIRST CENTENNIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>March 31, 1992</u> (UNAUDITED)	<u>DECEMBER 31, 1991</u> (NOTE)
ASSETS		
Fixed maturities:		
At amortized cost (market value of \$5,543,470 and \$6,134,688)	\$ 5,449,141	\$ 5,891,988
At market value (cost of \$6,319,073 and \$5,045,033)	6,269,104	5,164,515
Equity securities:		
Preferred stock at market cost of \$39,175	39,259	39,259
Common stock at market (cost of \$37,500 and \$200,465)	0	60,665
Mortgage loans	3,712,708	3,710,693
Policy loans	763,759	772,353
Collateral loan to affiliate	250,000	250,000
Short-term investments	<u>346,867</u>	<u>1,083,790</u>
TOTAL INVESTMENTS	16,830,838	16,973,263
Cash	441,069	128,439
Accrued investment income	297,846	302,295
Deferred policy acquisition costs	3,018,250	3,047,223
Property and equipment, less accumulated depreciation: 1992-\$338,183; 1991-\$360,005	92,234	105,503
Federal income tax refund	20,000	20,000
Other assets, net	<u>515,364</u>	<u>473,617</u>
	<u>\$ 21,215,601</u>	<u>\$ 21,050,340</u>

Note: The balance sheet at December 31, 1991 has been derived from audited financial statements at that date.

FIRST CENTENNIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 1992 (UNAUDITED)	DECEMBER 31, 1991 (NOTE)
LIABILITIES REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Policy reserves and contract liabilities:		
Future policy benefits	\$ 16,211,668	\$ 15,968,229
Advance premiums on deposit	220,677	222,426
Policy claims payable	<u>99,623</u>	<u>63,268</u>
	16,531,968	16,253,923
Other policyholder's funds	666,592	620,510
Other liabilities	243,208	186,504
Notes payable non-affiliates	550,000	550,000
Note payable to affiliate	349,724	352,724
Federal income taxes:		
Deferred	<u>172,000</u>	<u>172,000</u>
	<u>18,513,432</u>	<u>18,135,661</u>
REDEEMABLE PREFERRED STOCK		
Preferred Stock-1991 Series 1, par value \$10 per share, issued and outstanding 32,500 and 32,500 shares, respectively	<u>325,000</u>	<u>325,000</u>
STOCKHOLDERS' EQUITY		
Preferred Stock-1988 Series 1, par value \$1 per share, issued and outstanding 154,641 and 162,641 shares, respectively	154,641	162,641
Class A Common Stock, par value \$1 per share, authorized 15,000,000 shares, issued and outstanding 2,806,087 and 2,798,647 shares, respectively	2,806,087	2,798,647
Class B Common Stock, par value \$1 per share, authorized 50,000 shares, issued and outstanding 800 and 40,000 shares, respectively	800	40,000
Additional paid-in capital	2,929,733	3,889,973
Net unrealized loss on investments at market value	(88,210)	(21,059)
Accumulated deficit	<u>(3,425,942)</u>	<u>(3,280,521)</u>
	2,377,109	3,589,679
Less: Treasury stock, at cost	<u>0</u>	<u>1,000,000</u>
	<u>2,377,109</u>	<u>2,589,679</u>
	<u>\$ 21,215,601</u>	<u>\$ 21,050,340</u>

Note: The balance sheet at December 31, 1991 has been derived from audited financial statements at that date.

FIRST CENTENNIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATION (Unaudited)

	Three Months Ended March 31,	
	1992	1991
Revenues:		
Insurance revenues	\$ 642,263	\$ 706,753
Net investment income	348,272	368,521
Realized capital gains and (losses) on investments	21,408	193
Other	<u>5,787</u>	<u>1,633</u>
	1,017,730	1,077,100
Benefits and expenses:		
Insurance benefits paid or provided:		
Increase (decrease) in policy reserves	(89,370)	(81,973)
Policyholders' dividends	106,630	89,712
Claim and benefit expenses	<u>528,714</u>	<u>343,343</u>
	545,974	345,082
Salaries	121,396	161,760
Underwriting and insurance expenses	376,421	447,193
Amortization of deferred policy acquisition costs	<u>119,360</u>	<u>51,270</u>
	<u>1,163,151</u>	<u>1,005,305</u>
(Loss) gain before income taxes	(145,421)	71,795
Federal income tax expense (benefit)	<u>0</u>	<u>3,500</u>
NET (LOSS) GAIN	<u>\$ (145,421)</u>	<u>\$ 68,295</u>
Net (loss) gain per share of common stock	<u>\$ (0.05)</u>	<u>\$ 0.02</u>
Weighted average number of common shares outstanding during the period	<u>\$ 2,809,357</u>	<u>\$ 3,207,203</u>

See notes to condensed consolidated financial statements.

FIRST CENTENNIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATE STATEMENT OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
	1992	1991
Cash provided by operating activities	\$ 364,248	\$ (117,648)
Financing Activities		
Cash provided by borrowed money	250,000	300,000
Payments of notes and mortgages	<u>(253,000)</u>	<u>(450,000)</u>
CASH USED BY FINANCING ACTIVITIES	<u>(3,000)</u>	<u>(150,000)</u>
Investing Activities		
Sales of investments	6,946,005	1,847,573
Purchase of investments	<u>(6,994,623)</u>	<u>(1,264,983)</u>
Purchase of property and equipment	<u>0</u>	<u>(1,358)</u>
CASH PROVIDED BY INVESTING ACTIVITIES	<u>(48,618)</u>	<u>581,232</u>
INCREASE (DECREASE) IN CASH	312,630	313,584
Cash at beginning of period	<u>128,439</u>	<u>47,687</u>
CASH AT END OF PERIOD	<u>\$ 441,069</u>	<u>\$ 361,271</u>

See notes to condensed consolidated financial statements.

FIRST CENTENNIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 1992

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the three month period ended March 31, 1992, are not necessarily indicative of the results that may be expected for the year ending December 31, 1992. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1991.

NOTE B - DEFERRED FEDERAL INCOME TAXES

Deferred federal income taxes were computed by applying the statutory income tax rate to the loss before tax in the consolidated statements. These effective rates differ from the statutory rate because of non-life insurance company losses which cannot be offset against life insurance company income and because of certain special deductions available to life insurance companies.

NOTE C - CLASS A COMMON STOCK, CLASS B COMMON STOCK, 1988 SERIES 1 PREFERRED STOCK AND ADDITIONAL PAID-IN CAPITAL

During the first quarter of 1992, 8,000 shares of 1988 Series 1 Preferred Stock were converted to 7440 shares of Class A Common Stock. The conversion of the 1988 Series 1 Preferred Stock increased paid-in capital \$560.

NOTE D - NET INCOME (LOSS) PER SHARE

Net income (loss) for the three month period ended March 31, 1992 and 1991 per share of Class A Common Stock is based upon the number of shares of Class A Common Stock outstanding during the period plus the assumed conversion of 800 shares of Class B Common Stock in 1992 and 40,000 shares in 1991 into 6,000 and 300,000 shares of Class A Common Stocks respectively during which the Class B Common Stock was outstanding. Total weighted average number of shares assumed to be outstanding for the three month period were 2,809,357 and 3,207,203.

NOTE E - CAPITALIZED EXPENSES

During the first quarter of 1992, the Company made no additional capital expenditures for the acquisition of property and equipment or for the sale of stock.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The discussion below should be read in conjunction with the consolidated financial statements of First Centennial Corporation (the "Company") included in its Annual Report on Form 10-K for the year ended December 31, 1991.

Results of Operations

The Company incurred a \$145,421 net loss for the first three months of 1992 compared to a \$68,295 of net income for the same period in 1991. The loss was primarily due to the increases in claims and benefit expenses and deferred acquisition costs.

Insurance revenues decreased by \$64,490 during the three months of 1992 compared to the same period last year. This was due to the fact the Company ceased solicitation of new business in February of 1992.

Net investment income decreased slightly \$20,249 for the first three months of 1992. Management expects continued slight decreases in investment income for the balance of 1992, as it sells the portfolio of corporate bonds and purchases U.S. Treasury Notes.

The decrease during the first three months of 1992 salaries of \$40,364 as compared the same period a year ago is due to the Company's reduction in staff. Management expects that this staff decrease will remain throughout 1992.

Underwriting and insurance expenses were \$376,421 in the three months of 1992 as compared to \$447,195 during the same period of 1991. The Company reduced these expenses by \$70,772 while charging income with \$89,828 for doubtful debit agents balances and \$19,750 for prior capitalized expenses. No further write offs are anticipated for 1992.

Claims and benefit expense for the first three months of the year increased by \$185,371 due largely to the increase in death claims.

Liquidity and Capital Resources

The liquidity and capital resources requirements of the Company are met solely by the operation of the Company's life insurance subsidiary, First Centennial Life Insurance Company. First Centennial Life Insurance Company was required to have capital and surplus of \$780,000 by February 29, 1992, at March 31, 1992 the statutory capital and surplus was \$958,905. The requirement for statutory capital and surplus of First Centennial Life Insurance Company increases to \$960,000 by July 1, 1992 and thereafter increases proportionately each year thereafter to \$1.5 million on July 1, 1995. Management believes the Company can generate profits to meet these required amounts.

However, the recent increases in Company debt must also be paid out of or generated from profits of First Centennial Life. Total debt of the Company at March 31, 1992 was \$899,724, all of which is current. The Company's President is owed \$149,724 of the debt. He has agreed to forego payment of amounts owed to him in order for First Centennial Life Insurance Company to meet minimum required

amounts of capital and surplus. Also, \$250,000 of the debt is a revolving line of credit which the Company pays down from time to time.

During the first quarter of 1992 First Centennial Life Insurance Company withdrew voluntarily from doing business in two states because its statutory level of capital and surplus was not sufficient to do business in those states.

Management took the following course of action during the first quarter of 1992 in an effort to increase capital and surplus of First Centennial Life Insurance Company: ceased solicitation of new business during February, reduced the dividend provision on the LTA 600 policy, and is in the process of shifting the investment portfolio into long-term U.S. Treasury Notes thereby reducing the mandatory securities valuation reserve liability required in determining its statutory capital and surplus. In addition, interest rates currently being paid on interest sensitive products was reduced by 1%.

Management is optimistic that the proposed transaction with Citizens, Inc. (refer to the Company's December 31, 1991 10-K for additional information) will take place, and the liquidity and capital concerns of the Company will be alleviated. However, in the event the agreement with Citizens is not consummated, the Company will be required to continue the course of action outlined above, and may have to consider further significant cost reductions and once again, attempt to raise further equity and debt capital. There can be no assurance that these alternatives will succeed, in which case the Company would be significantly restricted in any activities it may undertake due to a lack of capital.

First Centennial Life holds a collateral loan in the amount of \$250,000 at March 31, 1992 made to its principal Class A common shareholder. The collateral for this loan is 475,000 shares of the Company's Class A Common Stock and a secured position through a deed of trust on approximately 119 acres of undeveloped real estate in North Carolina. The real estate is subject to a foreclosure action by the holder of a prior deed of trust. Notwithstanding First Centennial Life's junior secured position in the real estate, management believes First Centennial Life has sufficient collateral securing this loan.

PART II -- OTHER INFORMATION

- ITEM 1. Legal Proceedings
None
- ITEM 2. Changes in Securities
None
- ITEM 3. Default Upon Senior Securities
None
- ITEM 4. Submission of Matters to Vote of Security Holder
None
- ITEM 5. Other Information
None
- ITEM 6. Exhibits and Reports on Form 8-K
- A) None
- B) Two reports on Form 8-K were filed during the quarter ended March 31, 1992, a report dated February 27, 1992 with respect to Item 5. Other events and a report dated January 28, 1992 with respect to Item 1. Changes in control of registrants.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

May 19, 1992

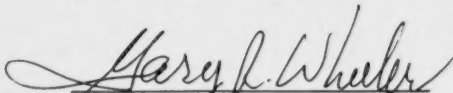
Date



Kenneth R. Bearden
Chief Executive Officer

May 19, 1992

Date



Gary R. Wheeler
Vice President/Treasurer
Principal Accounting Officer